



**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE
STATE OF CALIFORNIA**

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Application of Southern California Edison
Company (U 338-E) for Authority to Establish Its
Authorized Cost of Capital for Utility Operations
for 2023 and Reset the Annual Cost of Capital
Adjustment Mechanism

Application 22-04-____

APPLICATION OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E)
FOR AUTHORITY TO ESTABLISH ITS AUTHORIZED COST OF CAPITAL
FOR UTILITY OPERATIONS FOR 2023 AND RESET THE ANNUAL
COST OF CAPITAL ADJUSTMENT MECHANISM

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CAPITAL ADJUSTMENT MECHANISM**

Pursuant to the California Public Utilities Commission’s (“Commission”) Rules of Practice and Procedure and applicable Commission decisions, Southern California Edison Company (“SCE”) hereby files an application (the “Application”) for authority to establish its authorized cost of capital for utility operations in 2023, authorize a compensatory rate for carrying costs on balancing and memorandum accounts amortized over more than 12 months, and reset and clarify the annual Cost of Capital Mechanism (“CCM”).

In this Application, SCE requests that the Commission find reasonable and authorize:

- SCE to maintain its current capital structure of 52 percent common equity, 43 percent long-term debt, and 5 percent preferred equity for 2023;
- SCE’s return on common equity (“ROE”) of 10.53 percent, assuming the capital structure above;
- SCE’s embedded cost of long-term debt of 4.27 percent for 2023;
- SCE’s embedded cost of preferred equity of 5.72 percent for 2023;
- Based on the preceding capital structure and cost factors, SCE’s weighted average return on rate base of 7.60 percent for 2023;

- SCE to collect carrying costs at the weighted average cost of capital (“WACC”) on memorandum and balancing accounts amortized over more than 12 months;
- Resetting SCE’s current CCM for a three-year term (including 2023) so that SCE’s next cost of capital application is scheduled to file in early 2025 for test year 2026; and
- Clarifying the operation of the CCM should it trigger while an off-cycle application is pending.

An authorized return on rate base of 7.60 percent and authorized ROE of 10.53 percent provide a just and reasonable rate of return for SCE and are amply supported by testimony submitted with this Application. Additionally, setting aside the proposal to compensate SCE appropriately for Commission-adopted amortizations longer than 12 months, SCE’s request would not increase rates for SCE’s customers relative to the currently effective cost of capital revenue requirements.¹

SCE’s witness Dr. Bente Villadsen, Principal of The Brattle Group, performed a technical analysis and estimates an appropriate ROE range for SCE’s proxy group, utilizing the same models considered by the Commission in the 2020 cost of capital proceeding, to be between 10.0 and 10.75 percent. Dr. Villadsen further recommends that the Commission authorize SCE’s ROE at the upper end of that range given SCE’s plethora of substantial and unique business risks. As set forth in SCE witness testimony, those risks include persistent wildfire risk, implementation and fund depletion risks associated with Assembly Bill (“AB”) 1054, risks stemming from California’s clean energy goals, cash flow risks stemming from disconnection moratoriums related to the COVID-19 pandemic and a significant amount of SCE’s costs being recorded in memorandum accounts, and regulatory lag risks in ratemaking proceedings. In its off-cycle cost of capital application submitted in August 2021, which is

¹ As discussed further below, a decision is pending on SCE’s 2022 cost of capital application (A.21-08-013). Accordingly, the currently effective cost of capital is that authorized in D.19-12-056.

currently pending before the Commission, SCE proposed an ROE of 10.53 for test year 2022. SCE's ROE proposal here is consistent with that request.

I.

PROCEDURAL BACKGROUND

SCE last filed an on-cycle application for authority to establish its authorized cost of capital on April 22, 2019, for test year 2020. On December 20, 2019, the Commission issued D.19-12-056, which established SCE's 2020 cost of capital. The Commission also continued the existing structure of the CCM established in D.08-05-035 with a benchmark value (for SCE) of 4.50 percent.²

Given the low interest rates that resulted from unprecedented government economic intervention during the COVID-19 pandemic, the CCM's formula adjustment mechanism ("FAM") would have triggered for SCE in 2021. On August 23, 2021, SCE filed an off-cycle cost of capital application for test year 2022 pursuant to the CCM's extraordinary event offramp (the "Off-Cycle Application"). Given that the proceeding would not be resolved before January 1, 2022, the Commission authorized SCE to establish a memorandum account to record the difference in the revenue requirement resulting from the current authorized rate of return and the final rate of return to be adopted in a decision on the Off-Cycle Application.³ The Commission further held that the currently authorized rate of return should be used as the basis for calculating the eventual true-up.⁴

While the Off-Cycle Application contemplated a full cost of capital proceeding for 2022 through 2024, the Assigned Commissioner determined that SCE, along with the other utilities, would file its regularly scheduled cost of capital applications in April 2022 for test year 2023.⁵

² D.19-12-056, Ordering Paragraph ("OP") 7; SCE Advice 4190-E.

³ D.21-12-029, Finding of Fact 3, OP 2.

⁴ *Id.* at p. 7 ("As a matter of policy, it is reasonable to preserve the current authorized rate of return, which is the status quo as experienced by the customers today, as the Commission decides the final authorized rates in the above-captioned applications."), OP 4.

⁵ A.21-08-013, *Assigned Commissioner's Scoping Memorandum and Ruling*, Dec. 24, 2021, pp. 3, 8.

Given that a final decision is pending in that proceeding, SCE presents rate change information below as compared to the pre-2022 authorized rate of return.

II.

LEGAL STANDARD

The legal standards governing SCE's cost of capital application are set forth in the U.S. Supreme Court's decisions in two seminal cases, *Hope* and *Bluefield*. In *Bluefield*, the Court established that a public utility is entitled to earn a return "equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding[] risks and uncertainties."⁶ Moreover, the return should "be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit."⁷ *Bluefield* also provides the rate of return should enable a utility "to raise the money necessary for the proper discharge of its public duties."⁸ The Court in *Hope* reinforced this standard, and further emphasized that "[f]rom the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business," which include "service on the debt and dividends on the stock."⁹

In applying these standards, the Commission "attempt[s] to set the ROE at a level of return commensurate with market returns on investments having corresponding risks and adequate to enable a utility to attract investors to finance the replacement and expansion of a utility's facilities to fulfill its public utility service obligation."¹⁰

⁶ *Bluefield Waterworks & Improvement Co. v. Pub. Serv. Comm'n of W. Va.*, 262 U.S. 679, 692 (1923).

⁷ *Id.* at 693.

⁸ *Id.*

⁹ *Fed. Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944).; see also *SFPP, L.P. v. Pub. Util. Comm'n*, 217 Cal. App. 4th 784, 790 (2013) ("The basic principle [of ratemaking] is to establish a rate which will permit the utility to recover its cost and expenses *plus* a reasonable return on the value of property devoted to public use.") (quoting *S. Cal. Gas Co. v. Pub. Util. Comm'n*, 23 Cal. 3d 470, 476 (1979)).

¹⁰ D.19-12-056, p. 16.

III.

SCE'S REQUESTED COST OF CAPITAL FOR 2023

SCE requests Commission authorization of the following capital structure, costs of long-term debt and preferred equity, and return on common equity, to become effective January 1, 2023:

<i>2023 Recommended Cost of Capital for SCE</i>			
Component	Percentage	Cost	Weighted Cost
Long-Term Debt	43.0%	4.27%	1.84%
Preferred Equity	5.0%	5.72%	0.29%
Common Equity	52.0%	10.53%	5.48%
Total	100.0%		7.60%¹¹

The total weighted cost reflects SCE's proposed authorized return on rate base or its "rate of return." This proposed rate of return is based on SCE's assessment of each cost of capital component on an integrated basis.

SCE's credit quality and its cost of capital are shaped by its market risks (as measured by beta) and by the unique and ongoing risks it faces. Wildfires present a continued and increasing year-round risk for California due to extreme heat, severe drought, high winds, increased population density, and growing development in wildland-urban interface.¹² While AB 1054 was designed to provide the Commission with a framework to regulate SCE to reduce its wildfire liability and cost recovery risks, SCE continues to face ongoing operating, regulatory, and financial risks given extended and persisting uncertainties, including as to how the AB 1054 framework will be implemented.¹³ Analyst reports continue to demonstrate concerns over SCE's

¹¹ Due to rounding, the weighted cost numbers shown do not sum to 7.60 percent.

¹² See Exhibit SCE-01, *Testimony of Various Southern California Edison Witnesses Supporting Southern California Edison's Application for Authority to Establish Its Authorized Cost of Capital for Utility Operations for 2023 and Reset the Annual Cost of Capital Adjustment Mechanism* [hereinafter "SCE Witness Testimony"], Section III.D.1.a.

¹³ See *id.* at Section III.D.1.c.

wildfire risks today, nearly three years after AB 1054's passage, and EIX stock price is specifically discounted for California wildfire risk.¹⁴

SCE faces a multitude of other business and regulatory risks that render it higher risk than electric utility peers outside of California, including risks related to implementing California's ambitious clean energy goals.¹⁵ SCE also faces a significant cash flow constraint due to California's moratorium on disconnections for nonpayment and other customer COVID-relief programs.¹⁶ While the state's California Arrearage Payment Program ("CAPP") provided financial assistance, SCE's portion of the funding covered only a fraction of SCE's total arrearages, resulting in residual cash flow concerns. Regulatory lag, delayed cost recovery on funds recorded in balancing accounts, denial of interim rate relief, and uncertain cost recovery on funds recorded in memorandum accounts also present risks to SCE and its investors.¹⁷ Even after recovery is authorized, the Commission has in some cases adopted extended amortization periods for which SCE recovers carrying costs at the short-term commercial paper rate, which is not a compensatory rate. SCE seeks to address this risk through its proposal to receive a compensatory rate for carrying such balances over twelve months as set forth in Section IV below. In the absence of that relief, long amortization periods present additional risks to cash flow and to SCE's ability to recover its financing costs of service.

SCE engaged Dr. Villadsen to run several predictive models to determine a reasonable ROE for SCE. Relying on these models and an understanding of the unique risks to SCE and its investors, and taking into consideration SCE's debt equivalence, Dr. Villadsen recommends a reasonable ROE range for SCE's proxy group of 10.0 percent to 10.75 percent, with an appropriate ROE for SCE at the upper end of that range. While an ROE of up to 10.75 percent is therefore supported by predictive modeling and the risks unique to SCE and California utilities,

¹⁴ See *id.* at Section III.D.1.d.

¹⁵ See *id.* at Section III.D.2.

¹⁶ See *id.* at Section III.D.3.

¹⁷ See *id.* at Section III.D.4.

SCE is requesting an ROE of 10.53 percent consistent with its filing of several months ago. An ROE of 10.53 percent, combined with an update of the embedded costs of long-term debt and preferred equity, will not increase rates relative to SCE's current cost of capital (not inclusive of the proposal for a compensatory rate for carrying costs associated with balancing and memorandum accounts amortized over more than 12 months as set forth in Section IV, below). SCE proposes that the ROE remain in effect for the three-year cost of capital period, subject to the CCM (as proposed to be clarified) and its updated benchmark.

SCE proposes to maintain its authorized level of common equity at 52 percent and preferred equity at 5 percent of total capitalization in the 2022 test year. Maintaining this capital structure will help SCE to maintain investment grade credit ratings, ultimately allowing SCE access to capital markets and avoiding increased borrowing costs.¹⁸

Assuming SCE's proposed capital structure, an embedded cost of long-term debt of 4.27 percent, preferred equity of 5.72 percent, and common equity of 10.53 percent, SCE seeks a return on rate base of 7.60 percent.

IV.

PROPOSED RATE FOR CARRYING COSTS ON BALANCING AND MEMORANDUM ACCOUNTS AMORTIZED OVER MORE THAN 12 MONTHS

SCE proposes that balancing and memorandum accounts amortized over more than 12 months accrue carrying charges at SCE's WACC. This treatment would apply to balances in existing accounts that the Commission has already ordered to be amortized over more than 12 months as of January 1, 2023 until those balances are fully recovered, as well as any future accounts for which the Commission adopts an amortization period over 12 months.

Typically, the Commission allows SCE to recover costs deemed just and reasonable over a 12-month amortization period. However, in two recent decisions, the Commission has sought

¹⁸ See *id.* at Section IV.

to “rate smooth” through the use of extended amortization periods. First, in its decision on Track 1 of SCE’s GRC, the Commission ordered that the incremental revenue increase that had accrued from January 1, 2021 through September 30, 2021 be amortized over a twenty-seven-month period.¹⁹ Second, in D.21-10-025, the Commission denied SCE’s request to securitize wildfire operations and maintenance (“O&M”) and bad debt uncollectible expenses, concluding that securitization would cost customers more than the short-term commercial paper rate. Nonetheless, the Commission ordered SCE to submit an advice letter for recovery of the amounts “using a baseline amortization of 36 months.”²⁰ In its comments on the proposed decision, SCE noted that the commercial paper rate would be noncompensatory given the 36-month amortization period and, at a minimum, asked that it be permitted to exclude the unamortized portion of O&M and uncollectible expenses financed with long-term debt from its authorized capital structure.²¹ The Commission declined that request, but noted that SCE could raise the issue in its cost of capital proceeding.²²

SCE is therefore requesting in this Application that the Commission authorize it to accrue carrying charges for balances recovered over an amortization period longer than 12 months at the WACC as opposed to the short-term commercial paper rate. As set forth fully in SCE’s testimony, the WACC is the appropriate rate for these long-term accounts because SCE must maintain its long-term capital structure at the balance authorized by the Commission, which requires it to accomplish long-term financing with debt and equity capital. At the existing commercial paper rate, long amortization periods impose higher financing costs on SCE while burdening its balance sheet and credit metrics without a commensurate rate of return. This disconnect with the cost-of-service model increases risk, which would ultimately result in higher customer rates.

¹⁹ D.21-08-036, p. 2.

²⁰ D.21-10-025, OP 56.

²¹ SCE’s Comments on Financing Order, pp. 10, 14.

²² D.21-10-025, p. 68, n. 102.

V.

PROPOSED MODIFICATIONS TO THE CCM

SCE proposes to reset the CCM for a three-year term (including 2023), so that SCE's next cost of capital application will be filed in early 2025 for test year 2026. SCE's issuer credit rating from Standard & Poor's is BBB and from Moody's is Baa2. Therefore, SCE proposes to continue to utilize the Moody's Baa long-term utility bond yield index for its CCM and to reset the CCM benchmark to the 12-month average of the yield of the Moody's Baa utility bond index for the period from October 2021 through September 2022.

SCE also proposes a minor clarification to the procedural path when an off-cycle cost of capital application is pending and the CCM triggers. The CCM currently provides that the utilities may file an application at any time upon an extraordinary or catastrophic event that materially impacts their respective cost of capital and/or capital structure and impacts them differently than the overall financial markets.²³ SCE filed its Off-Cycle Application pursuant to this provision given the extraordinary circumstances associated with the pandemic and unprecedented government response. Given the low interest rates resulting from government stimulus efforts in response to the pandemic, the CCM would have triggered in 2021 in the absence of SCE's application. The Assigned Commissioner and Administrative Law Judges in that proceeding ordered SCE to file the information that would have been included in its October 15 advice letter and authorized SCE to establish a memorandum account to track the difference between the then-authorized cost of capital and the cost of capital resulting from the proceeding.²⁴

SCE proposes to memorialize this procedural path for future submissions by clarifying that if a utility files an off-cycle application pursuant to the extraordinary event offramp and, while that application is pending, the CCM triggers (*i.e.*, the difference between the current 12-

²³ D.08-05-035, p. 16, Conclusion of Law 6.

²⁴ *E-mail Ruling of the Assigned Commissioner and the Administrative Law Judges Ordering Compliance with Decision 08-05-035*, Oct. 28, 2021, A.21-08-013, *et al.*; D.21-12-029.

month October through September average Moody's utility bond rates and the benchmark exceeds 100-basis points), the FAM shall not automatically take effect. Rather, the October 15 advice letter filing shall be informational only, identifying the ROE and related rate adjustments that would result in the event of operation of the FAM. By October 15, the utility shall also submit a Tier 2 advice letter establishing a memorandum account to record the difference in the revenue requirement resulting from the then-current authorized rate of return and the final rate of return to be adopted in a decision on the application.

VI.

STATUTORY AND REGULATORY REQUIREMENTS

A. Statutory and Procedural Authority

Rule 2.1 requires that all applications: (1) clearly and concisely state authority or relief sought; (2) cite the statutory or other authority under which that relief is sought; and (3) be verified by the applicant. Rules 2.1(a), 2.1(b), and 2.1(c) set forth further requirements that are addressed separately below. The relief being sought is summarized above in Sections III, IV, and V and is further described in the testimony, preliminarily identified as follows:

- Exhibit SCE-01, entitled *Testimony of Various Southern California Edison Witnesses Supporting Southern California Edison's Application for Authority to Establish Its Authorized Cost of Capital for Utility Operations for 2023 and Reset the Annual Cost of Capital Adjustment Mechanism*.
- Exhibit SCE-02, entitled *Testimony of Dr. Bente Villadsen on SCE's Return on Equity*.

The statutory and other authority under which this relief is being sought includes D.89-01-040, which establishes the documentation required to support SCE's cost of capital application. In addition, this request complies with Rules 1.5 through 1.11 and 1.13 of

Commission's Rules of Practice and Procedure, which specify the procedures for, among other things, filing documents, as well as Rules 2.1, 2.2, and 3.2.

This Application has been verified by an SCE officer as provided in Rules 1.11 and 2.1.

B. Legal Name and Correspondence – Rules 2.1(a) and 2.1(b)

Pursuant to Rule 2.1 of the Commission's Rules of Practice and Procedure, the full legal name of the applicant is Southern California Edison Company (abbreviated as "SCE"). SCE is a corporation organized and existing under the laws of the State of California, and is primarily engaged in the business of generating, purchasing, transmitting, distributing and selling electric energy for light, heat, and power in portions of central and southern California as a public utility subject to the jurisdiction of the Commission. SCE's properties, which are located primarily within the State of California, consist mainly of hydroelectric and thermal electric generating plants, together with transmission and distribution lines and other property necessary in connection with its business.

SCE's principal place of business is 2244 Walnut Grove Avenue, Rosemead, California, and its post office address and telephone number are:

Southern California Edison Company
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Telephone: (626) 302-1212

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C. **Proposed Categorization, Need for Hearings, Issues to Be Considered, and Proposed Schedule – Rule 2.1(c)**

Commission Rule 2.1(c) requires that all applications shall state “[t]he proposed category for the proceeding, the need for hearing, the issues to be considered including relevant safety considerations, and a proposed schedule.”

1. **Proposed Category**

SCE proposes this Application be designated a ratesetting proceeding, as defined in Public Utilities Code §1701.1(c)(3) and Rule 1.3(g).

2. **Need for Hearings**

The need for hearings and the issues to be considered in such hearings will depend in large part on the degree to which other parties contest SCE’s request, and the need for hearings will ultimately be determined by the assigned Administrative Law Judge(s). Therefore, for the sake of thoroughness, SCE’s proposed procedural schedule below allows for evidentiary hearings.

3. **Issues to be Considered, Including Relevant Safety Considerations**

In general, the issues to be considered are discussed above and in more detail in SCE’s supporting testimony served concurrently with this Application. There are no relevant safety considerations implicated by this Application.

4. **Procedural Schedule**

Rule 2.1(c) requires that for ratesetting proceedings, the proposed schedule resolve the proceeding within 18 months or less. For cost of capital proceedings, the Commission has historically issued a final decision before the end of the calendar year in which the application is

filed to allow rates to go into effect on January 1 of the test year for the cycle.²⁵ This schedule provides certainty for customers and especially the investment community where regulatory uncertainty can push investors to look for alternative options to avoid unknown outcomes. Therefore, SCE respectfully requests that a schedule be adopted to facilitate timely issuance of a final decision. Accordingly, assuming evidentiary hearings are necessary, SCE proposes the following procedural schedule to ensure that rates may be implemented by January 1, 2023:

DATE	EVENT
April 20, 2022	Application filed
30 days from the date the notice of the filing of the Application appears in the Daily Calendar; approximately May 23, 2022	Protests and responses due
10 days from the deadline for filing Protests / Responses; approximately June 2, 2022	Applicant's reply to protests
By June 10, 2022	Prehearing Conference
July 27, 2022	Public Advocates Office and intervenor testimony due
August 19, 2022	Rebuttal testimony due
August 29-September 1, 2022	Evidentiary hearings
September 14, 2022	Late-Filed Exhibit (cost of debt)
September 27, 2022	Opening briefs due
October 12, 2022	Reply briefs due
November 2022	Proposed decision issues
December 2022	Final decision issues

²⁵ See D.89-01-040 (establishing annual cost of capital proceedings and noting “[t]he annual cost of capital proceeding would be decided prior to December each year with rates effective January 1”). After the Commission adopted a multi-year cost of capital cycle in 2008, it continued to issue decisions prior to the end of the calendar year in which the application was filed (see D.12-12-034; D.19-12-056).

D. Organization and Qualification to Transact Business – Rule 2.2

In compliance with Rule 2.2 of the Commission’s Rules of Practice and Procedure,²⁶ a copy of SCE’s Certificate of Restated Articles of Incorporation, effective on March 2, 2006, and presently in effect, certified by the California Secretary of State, was filed with the Commission on March 14, 2006, in connection with Application No. 06-03-020, and is incorporated herein by this reference pursuant to Rule 2.2 of the Commission’s Rules of Practice and Procedure.

A copy of SCE’s Certificate of Determination of Preferences of the Series D Preference Stock filed with the California Secretary of State on March 7, 2011, and presently in effect, certified by the California Secretary of State, was filed with the Commission on April 1, 2011, in connection with Application No. 11-04-001, and is incorporated herein by this reference.

A copy of SCE’s Certificate of Determination of Preferences of the Series E Preference Stock filed with the California Secretary of State on January 12, 2012, and a copy of SCE’s Certificate of Increase of Authorized Shares of the Series E Preference Stock filed with the California Secretary of State on January 31, 2012, and presently in effect, certified by the California Secretary of State, were filed with the Commission on March 5, 2012, in connection with Application No. 12-03-004, and are incorporated herein by this reference.

A copy of SCE’s Certificate of Determination of Preferences of the Series F Preference Stock filed with the California Secretary of State on May 5, 2012, and presently in effect, certified by the California Secretary of State, was filed with the Commission on June 29, 2012, in connection with Application No. 12-06-017, and is incorporated herein by this reference.

A copy of SCE’s Certificate of Determination of Preferences of the Series G Preference Stock filed with the California Secretary of State on January 24, 2013, and presently in effect, certified by the California Secretary of State, was filed with the Commission on January 31,

²⁶ Rule 2.2 requires the applicant, in this case SCE, to submit a copy of its organizing documents and evidence of its qualification to transact business in California, or to refer to that documentation if previously filed with the Commission.

2013, in connection with Application No. 13-01-016, and is incorporated herein by this reference.

A copy of SCE's Certificate of Determination of Preferences of the Series H Preference Stock filed with the California Secretary of State on February 28, 2014, and presently in effect, certified by the California Secretary of State, was filed with the Commission on March 24, 2014, in connection with Application No. 14-03-013, and is incorporated herein by this reference.

A copy of SCE's Certificate of Determination of Preferences of the Series J Preference Stock filed with the California Secretary of State on August 19, 2015, and presently in effect, certified by the California Secretary of State, was filed with the Commission on October 2, 2015, in connection with Application No. 15-10-001, and is incorporated herein by this reference.

A copy of SCE's Certificate of Determination of Preferences of the Series K Preference Stock filed with the California Secretary of State on March 2, 2016, and presently in effect, certified by the California Secretary of State, was filed with the Commission on April 1, 2016, in connection with Application No. 16-04-001, and is incorporated herein by this reference.

A copy of SCE's Certificate of Determination of Preferences of the Series L Preference Stock filed with the California Secretary of State on June 20, 2017, and presently in effect, certified by the California Secretary of State, was filed with the Commission on June 30, 2017, in connection with Application No. 17-06-030, and is incorporated herein by this reference.

Copies of SCE's latest Annual Report to Shareholders and Edison International's latest proxy statement sent to its stockholders has been filed with the Commission with a letter of transmittal dated March 18, 2022, pursuant to General Order Nos. 65-A and 104-A of the Commission.

E. Balance Sheet and Income Statement – Rule 3.2(a)(1)

Appendix A to this Application contains copies of SCE's balance sheet as of December 31, 2021 and income statement for the period ended December 31, 2021, the most recent period available.

F. Statement of Presently Effective and Proposed Rates – Rule 3.2(a)(2) and (a)(3)

SCE's requested rate of return does not result in a rate increase for SCE's customers as compared to the currently effective rate of return. However, with SCE's request for authorization to accrue financing costs using a compensatory rate on long-amortized balancing and memorandum accounts, this Application would result in a revenue requirement increase of \$12.5 million in 2023 as compared to the revenue requirement resulting from the currently effective cost of capital. If the revenue requirement change caused by this Application were to be allocated on a system average basis, the projected change by customer group (as compared to the pre-2022 authorized cost of capital) would be as shown below.

Customer Group Revenue Impact Based on Cost of Capital Application for 2023					
	Current	Proposed	% Change	Present Rates	Bundled Proposed Rates
	Revenues (\$000)	Revenues (\$000)		(¢/kWh)	(¢/kWh)
Residential	\$ 4,762,641	\$ 4,766,624	0.08%	25.66	25.68
Lighting - Small & Medium Power	\$ 3,862,022	\$ 3,864,654	0.07%	25.96	25.98
Large Power	\$ 1,748,742	\$ 1,749,657	0.05%	17.87	17.88
Ag & Pumping	\$ 558,173	\$ 558,533	0.06%	21.26	21.28
Street & Area Lighting	\$ 89,216	\$ 89,256	0.04%	27.22	27.23
Standby	\$ 375,766	\$ 375,891	0.03%	14.43	14.43
Total	\$ 11,396,560	\$ 11,404,616	0.07%	23.36	23.38

G. Description of SCE's Property and Equipment, Original Cost Thereof, and Depreciation Reserve – Rule 3.2(a)(4)

Because this Application is not a general rate case application, this requirement does not apply.

H. Summary of Earnings – Rule 3.2(a)(5)

In compliance with Rule 3.2(a)(5), Appendix B hereto contains a copy of SCE's summary of earnings, updated April 15, 2022, for 2022 and 2023.

I. Tax Depreciation – Rule 3.2(a)(7)

Because this Application is not a general rate case application, this requirement does not apply.

J. Proxy Statement – Rule 3.2(a)(8)

Because this Application is not a general rate case application, this requirement does not apply.

K. Statement Pursuant to Rule 3.2(a)(10)

The proposed rate change reflects changes in SCE's cost of capital for equity and debt, and maintenance of the currently authorized capital structure.

L. Notice and Service of Application – Rule 3.2(b), (c) and (d)

SCE will provide notice to customers in the forms prescribed in Rule 3.2. Rule 3.2(b) requires notice in general terms of the proposed increase in rates to be mailed to the designated officials of the state and the counties and cities listed in Appendix C to this Application. Rule 3.2(c) requires notice to be published in a newspaper of general circulation in each county in SCE's service territory within which the rate changes would be effective. A list of the cities and counties affected by the increase proposed in this application is attached as Appendix C. Finally, Rule 3.2(d) requires notice to be furnished to customers affected by the proposed increase by including such notice with the regular bills mailed to those customers. SCE will provide these three forms of notice and also file proof of its compliance with Rule 3.2, as prescribed by Rule 3.2(e).

The official service list has not yet been established in this proceeding. SCE is serving this Application and supporting testimony on the Commission's Public Advocates Office, as well as the combined service list established by the Commission for A.21-08-013, *et al.* (SCE's Off-Cycle Application).

VII.

CONCLUSION

SCE respectfully requests that the Commission:

1. Find reasonable and authorize SCE's capital structure for 2023 of 52% common equity, 43% long-term debt, and 5% preferred equity;
2. Find reasonable and authorize an ROE of 10.53%;
3. Find reasonable and authorize an embedded cost of debt of 4.27% for 2023, and an embedded cost of preferred equity of 5.72% for 2023;
4. Based on the preceding capital structure and cost factors, find reasonable and authorize a weighted average return on utility rate base of 7.60% for 2023;
5. Authorize SCE to accrue carrying costs at the WACC on memorandum and balancing accounts amortized over more than 12 months;
6. Authorize a continuation of the CCM with the clarification described herein as to the utilities' obligations with respect to the October 15 advice letter should the CCM trigger while an off-cycle application is pending;
7. Reset the applicable benchmark to the average of the Moody's Investors Service long-term Baa rated utility bond index for the year prior to September 30, 2022;
8. Authorize the reset of SCE's current CCM for ROE, embedded cost of debt, and preferred equity such that SCE's next cost of capital application is due in April 2025 for test year 2026;
9. Render such other Findings of Fact, Conclusions of Law, and issuing orders by the end of this year consistent with the foregoing request; and
10. Grant such other relief as the Commission finds to be just and reasonable.

Respectfully submitted,

REBECCA FURMAN
AINSLEY CARRENO

/s/ Rebecca Furman

By: Rebecca Furman

Attorneys for
SOUTHERN CALIFORNIA EDISON COMPANY

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Dated: **April 20, 2022**

VERIFICATION

I am an officer of the applicant corporation herein and am authorized to make this verification on its behalf. I am informed and believe that the matters stated in the foregoing document are true.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this **20th day of April 2022**, at Rosemead, California

/s/ Natalia Woodward

By: Natalia Woodward
Vice President and Treasurer

SOUTHERN CALIFORNIA EDISON COMPANY
2244 Walnut Grove Avenue
Post Office Box 800
Rosemead, California 91770

Appendix A

Balance Sheets Q4 2021

SOUTHERN CALIFORNIA EDISON COMPANY

(h) A balance sheet as of the latest available date, together with an income statement covering the period from close of last year for which an annual report has been filed with the Commission to the date of the balance sheet attached to the application.

STATEMENT OF INCOME
TWELVE MONTHS ENDED DECEMBER 31, 2021

(In millions)

OPERATING REVENUE	<u>\$ 14,874</u>
OPERATING EXPENSES:	
Purchase power and fuel	5,540
Operation and maintenance	3,588
Wildfire-related claims, net of insurance recoveries	1,276
Wildfire Insurance Fund expense	215
Depreciation and amortization	2,216
Property and other taxes	462
Impairment and other expense	69
Other operating income	(2)
Total operating expenses	<u>13,364</u>
OPERATING INCOME	1,510
Interest expense	(791)
Other income	233
INCOME BEFORE TAXES	<u>952</u>
Income tax expense	17
NET INCOME	<u>935</u>
Less: Preferred and preference stock dividend requirements	<u>106</u>
NET INCOME AVAILABLE FOR COMMON STOCK	<u><u>\$ 829</u></u>

SOUTHERN CALIFORNIA EDISON COMPANY

BALANCE SHEET
DECEMBER 31, 2021
ASSETS
(in millions)

UTILITY PLANT:

Utility plant, at original cost	\$ 57,714
Less- accumulated provision for depreciation and amortization	11,407
	<hr/> 46,307
Construction work in progress	4,067
Nuclear fuel, at amortized cost	123
	<hr/> 50,497

OTHER PROPERTY AND INVESTMENTS:

Nonutility property - less accumulated depreciation of \$88	196
Nuclear decommissioning trusts	4,870
Other investments	34
	<hr/> 5,100

CURRENT ASSETS:

Cash and cash equivalents	279
Receivables, less allowances of \$193 for uncollectible accounts	1,393
Accrued unbilled revenue	794
Inventory	420
Prepaid expenses	257
Regulatory assets	1,778
Wildfire insurance fund contributions	204
Other current assets	222
	<hr/> 5,347

DEFERRED CHARGES:

Receivables, less allowance of \$116 for uncollectible accounts	122
Regulatory assets (Includes \$325 related to VIEs)	7,660
Wildfire insurance fund contributions	2,359
Operating lease right-of-use assets	1,925
Long-term insurance receivables	75
Other long-term assets	1,453
	<hr/> 13,594

SOUTHERN CALIFORNIA EDISON COMPANY

BALANCE SHEET
DECEMBER 31, 2021
CAPITALIZATION AND LIABILITIES
(in millions)

CAPITALIZATION:

Common stock	\$ 2,168
Additional paid-in capital	7,033
Accumulated other comprehensive loss	(32)
Retained earnings	8,721
Common shareholder's equity	<u>17,890</u>
Long-term debt (Includes \$314 related to VIEs)	21,733
Preference stock	1,945
Total capitalization	<u>41,568</u>

CURRENT LIABILITIES:

Short-term debt	2,354
Current portion of long-term debt	377
Accounts payable	1,999
Wildfire-related claims	131
Customer deposits	193
Regulatory liabilities	603
Current portion of operating lease liabilities	582
Other current liabilities	1,631
	<u>7,870</u>

DEFERRED CREDITS:

Deferred income taxes and credits	7,181
Pensions and benefits	111
Asset retirement obligations	2,772
Regulatory liabilities	8,981
Operating lease liabilities	1,343
Wildfire-related claims	1,733
Other deferred credits and other long-term liabilities	2,979
	<u>25,100</u>

Appendix B

Summary of Earnings

Southern California Edison
2021 GRC Summary of Earnings
PTYR 2022 (RO Model 6.2)

Thousands of Dollars

Southern California Edison Summary of Earnings 2022 GRC Adopted Revenue Requirement Thousands of Dollars		
Line No.	Item	Total
1.	Base Revenues	7,259,220
2.	Expenses:	
3.	Operation & Maintenance	2,448,763
4.	Depreciation	2,011,669
5.	Taxes	663,739
6.	Revenue Credits	(163,462)
7.	Total Expenses	4,960,710
8.	Net Operating Revenue	2,298,511
9.	Rate Base	29,949,906
10.	Rate of Return	7.67%

Southern California Edison Summary of Earnings 2023 GRC Adopted Revenue Requirement Thousands of Dollars		
Line No.	Item	Total
1.	Base Revenues	7,667,490
2.	Expenses:	
3.	Operation & Maintenance	2,477,694
4.	Depreciation	2,133,307
5.	Taxes	759,484
6.	Revenue Credits	(164,173)
7.	Total Expenses	5,206,312
8.	Net Operating Revenue	2,461,178
9.	Rate Base	32,064,131
10.	Rate of Return	7.68%

Appendix C

Incorporated Cities And Counties Served By SCE

INCORPORATED CITIES AND COUNTIES SERVED BY SCE

COUNTIES

Fresno	Kern	Madera	Riverside	Tuolumne
Imperial	Kings	Mono	San Bernardino	Tulare
Inyo	Los Angeles	Orange	Santa Barbara	Ventura

CITIES

Adelanto	Commerce	Hesperia	Lynwood	Porterville	Tehachapi
Agoura Hills	Compton	Hidden Hills	Malibu	Rancho Cucamonga	Temecula
Alhambra	Corona	Highland	Mammoth Lakes	Rancho Mirage	Temple City
Aliso Viejo	Costa Mesa	Huntington Beach	Manhattan Beach	Rancho Palos Verdes	Thousand Oaks
Apple Valley	Covina	Huntington Park	Maywood	Rancho Santa Margarita	Torrance
Arcadia	Cudahy	Indian Wells	McFarland	Redlands	Tulare
Artesia	Culver City	Industry	Menifee	Redondo Beach	Tustin
Avalon	Cypress	Inglewood	Mission Viejo	Rialto	Twentynine Palms
Baldwin Park	Delano	Irvine	Monrovia	Ridgecrest	Upland
Barstow	Desert Hot Springs	Irwindale	Montclair	Rolling Hills	Ventura
Beaumont	Diamond Bar	Jurupa Valley	Montebello	Rolling Hills Estates	Victorville
Bell	Downey	La Canada Flintridge	Monterey Park	Rosemead	Villa Park
Bell Gardens	Duarte	La Habra	Moorpark	San Bernardino	Visalia
Bellflower	Eastvale	La Habra Heights	Moreno Valley	San Dimas	Walnut
Beverly Hills	El Monte	La Mirada	Murrieta	San Fernando	West Covina
Bishop	El Segundo	La Palma	Newport Beach	San Gabriel	West Hollywood
Blythe	Exeter	La Puente	Norco	San Jacinto	Westlake Village
Bradbury	Farmersville	La Verne	Norwalk	San Marino	Westminster
Brea	Fillmore	Laguna Beach	Ojai	Santa Ana	Whittier
Buena Park	Fontana	Laguna Hills	Ontario	Santa Barbara	Wildomar
Calabasas	Fountain Valley	Laguna Niguel	Orange	Santa Clarita	Woodlake (Three Rivers)
California City	Fullerton	Laguna Woods	Oxnard	Santa Fe Springs	Ventura
Calimesa	Garden Grove	Lake Elsinore	Palm Desert	Santa Monica	Yorba Linda
Camarillo	Gardena	Lake Forest	Palm Springs	Santa Paula	Yucaipa
Canyon Lake	Glendora	Lakewood	Palmdale	Seal Beach	Yucca Valley
Carpinteria	Goleta	Lancaster	Palos Verdes Estates	Sierra Madre	
Carson	Grand Terrace	Lawndale	Paramount	Signal Hill	
Cathedral City	Hanford	Lindsay	Perris	Simi Valley	
Cerritos	Hawaiian Gardens	Loma Linda	Pico Rivera	South El Monte	
Chino	Hawthorne	Lomita	Placentia	South Gate	
Chino Hills	Hemet	Long Beach	Pomona	South Pasadena	
Claremont	Hermosa Beach	Los Alamitos	Port Hueneme	Stanton	